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Via E-mail

Ann E. Misback
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, DC 20551

Re: Large Financial Institutions Rating System — Docket No. R-1569; RIN 7100-AE82

Ladies and Gentlemen:

The Goldman Sachs Group, Inc. (Goldman Sachs) is pleased to comment on the above-captioned notice of proposed rulemaking (the Proposal) issued by the Board of Governors of the Federal Reserve System (the Federal Reserve or FRB), which would replace the current RFI/C(D) rating system for large financial institutions (LFIs).

We would like to express our support for the Proposal, and we commend the Federal Reserve for undertaking the important task of re-aligning the rating system for LFIs with its supervisory priorities for these firms. As noted in the preamble to the Proposal, the objectives of the LFI supervision framework are, first, to enhance the operational strength and resilience of LFIs and reduce the likelihood of a failure or material financial or operational distress, and, second, to reduce the risks to US financial stability overall if an LFI were to fail. We strongly support these objectives and agree that the ratings system should be designed to further these goals.

We have contributed to industry discussions on the Proposal, and we broadly support the points made in the comment letters submitted by The Clearing House and the American Bankers Association. We have taken this opportunity to add our own comment letter to the industry letters because the rating system to which LFIs are subject has far-reaching implications for a firm's ability to grow and expand its business in the future. We set out our concerns and comments below.

Rating Categories

While the FRB indicates that the transition from the current system of five ratings categories to four 'is intended to be evolutionary and expected to be routine in most respects,' the Proposal does not explicitly address the question of how the new ratings would align with the existing system. In particular, it seems to leave open the possibility that LFI currently rated 'Satisfactory' (2) might in the future be considered 'Satisfactory Watch' (rather than the new 'Satisfactory'), simply as a result of the transition to the new framework. A 'Satisfactory Watch' rating would put these banks on a rapid remediation timeline that could carry more immediate and potentially more serious consequences than the current 'Satisfactory' rating does. It is important that the transition to the new system does not result in inadvertent ratings downgrades.

Composite Ratings

We recommend that the FRB continue to give banks standalone composite ratings under the new system. While we understand the FRB's concerns that a composite rating might dilute the clarity and impact of each of the component ratings, we do not believe that this is the case with the current practice; we believe that a standalone rating would provide a helpful view of the relative importance of the strengths and deficiencies identified in each of the component ratings. Weighting deficiencies in this way would provide a fuller view of the health of each institution.

Remediation of a 'Satisfactory Watch' Rating

The Proposal would provide only a brief window ('generally no longer than 18 months') in which to remediate the issues driving a 'Satisfactory Watch' rating. Firms that failed to do so within this timeline would typically be downgraded to 'Deficient-1,' thereby losing their 'well-managed' status and potentially being prevented from engaging in new or expansionary activities. Yet, in some areas, thorough and effective remediation may take longer than such a standard, inflexible and limited timeline would allow, especially if the remediation timeline must also include internal governance review and validation processes. Supervisory review, which generally requires several months, only begins after these internal processes are complete. We encourage the FRB to clearly define what it means to 'fully resolve' an issue. We also encourage the FRB to provide firms rated 'Satisfactory Watch' with specific benchmarks for moving to a 'Satisfactory' rating and to adapt the timetable to reflect the scope of the remediation work required.

Transitional Arrangements

The Proposal indicates that the FRB intends to move to the new ratings system in 2018. However, given that the guidance is only now under development, and considering the time that will be required to synthesize comments and publish a final rule, this generates significant uncertainty as to which standards will apply this year. We recommend that the FRB delay implementation and run a pilot program until the 2019 ratings cycle; this would allow the FRB time to develop its supervisory guidelines and would give banks and supervisors alike time to

become familiar with the new system. A pilot program would also allow the FRB the opportunity to gauge the new system's effectiveness and make any appropriate modifications.

Capital and Liquidity Management

We agree that capital and liquidity management, including related stress testing, is of paramount importance and should be the foundation of the rating system for large financial institutions. The Proposal indicates that the key conclusions from LFI supervisory activities, including the Comprehensive Capital Analysis and Review (CCAR) and the Comprehensive Liquidity Assessment and Review (CLAR), will be 'directly reflected' in the Capital and the Liquidity components of the ratings assessment. We believe that these links should be stronger, and that supervisory expectations should be clear and consistent:

- In CCAR, firms are in practice measured against more specific standards than current guidance¹ would suggest; moreover, in certain instances, these standards have been inconsistent over time. If the FRB wishes to set more specific standards to assess the qualitative capital adequacy processes, it should subject them to the standard administrative procedures of public notice and comment.
- We share the industry's view that the FRB's own 'severely adverse' test lacks the transparency and precision necessary to make it an appropriate or effective criterion for ratings purposes, and we consider that firms should automatically be deemed to have achieved a 'Satisfactory' rating in the capital component if they are able to demonstrate their capital adequacy through the internal 'severely adverse' test of CCAR.
- Similarly, evaluation of the liquidity component should be based on compliance with the Liquidity Coverage Ratio and Regulation YY internal stress testing requirements.

Recovery and Resolution Planning

Our Lead Director has already responded to the proposal regarding the first aspect of the Governance and Controls component of the ratings through a letter submitted in December 2017.² We are working with the industry on a response to the second aspect, the proposal addressing management of business lines and independent risk management and controls. On the third, recovery planning, we note that the industry has received only limited guidance on this topic in recent years. We also believe that recovery planning does not convey nearly as much information about a firm's governance and controls in a business-as-usual setting as the other aspects of this component do. However, if recovery planning is to be considered a key factor in the evaluation of whether a firm is 'well managed,' then we encourage the FRB to issue more timely feedback on plans that have been submitted.

¹ An example of existing guidance is SR Letter 15-18

² This letter can be found at https://www.federalreserve.gov/SECRS/2018/January/20180116/OP-1570/OP-1570_122917_131926_416303854446_1.pdf

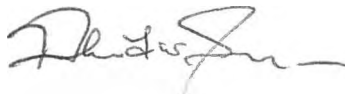
The FRB asks whether resolution planning should be a separate component of the LFI rating system. We strongly believe that the resolution plan is not predictive of a firm's safety and soundness, and we note that there is already a robust review process with associated penalties for a 'non-credible' assessment. Additionally, as the recent Treasury Report³ has highlighted, the 'accretion of guidance for living wills without the benefit of public notice and comment has placed an undue burden on participating institutions.'

Supervisory Process

Finally, while this issue is not directly addressed in the Proposal, we would also like to see a straightforward and effective means of redress when banks question the FRB's conclusions, whether on factual issues or on the materiality of particular examination findings. We believe that the current regulatory practices do not give banks an adequate opportunity to challenge supervisory conclusions, and we would like to see a system that shielded banks from concerns of retribution. Moreover, we strongly agree with our industry colleagues on the need for more transparency, objectivity and consistency in the supervisory process – the FRB's recent commitment to enhance transparency around CCAR is welcome in this regard – as well as greater transparency in findings, standards, benchmarks and timelines for remediation at individual banks. We believe that articulating and clearly communicating objective standards, and giving firms sufficient time to comply with these standards, would help to achieve the Proposal's goal of clearer and more consistent supervisory assessments and findings. We believe that more efficient supervision and a more meaningful dialogue between supervisors and bank management would benefit both banks and supervisors and would strengthen broader financial stability.

We appreciate your consideration of these comments, and we reiterate our support for the Federal Reserve's efforts to align the ratings systems more closely with its strategic priorities and with our shared goal of ensuring the continued safety and soundness of the US financial system. We would be pleased to discuss these comments with you in more detail and to provide additional information that might be helpful.

Sincerely,



John F.W. Rogers
Executive Vice President
Secretary to the Board of Directors
The Goldman Sachs Group, Inc.

³ See U.S. Department of Treasury's June 2017 report entitled "A Financial System That Creates Economic Opportunities – Banks and Credit Unions"